

Message Text

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ACTION EB-07

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CIEP-02 LAB-04 SIL-01 OMB-01 TAR-01 /067 W

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R 101507Z NOV 75

FM AMCONSUL RIO DE JANEIRO

TO SECSTATE WASHDC 3002

INFO USDOC WASHDC

AMEMBASSY BRZSILIA

AMCONSUL SAO PAULO

AMCONSUL BELEM

AMCONSUL PORTO ALEGRE

AMCONSUL RECIFE

AMCONSUL SALVADOR

UNCLAS RIO DE JANEIRO 3653

E. O. 11652: N/A

TAGS: BEXP, BR

SUBJ: COUNTRY COMMERCIAL ACTION MEETING (CCAG), OCTOBER 29 -
IMPORT CLIMATE AND BEST PROSPECTS CERP REPORT

REF.: BRASILIA 9682

1. SUMMARY.

CCAG DISCUSSED THE PHRASE "CHANGING IMPORT CLIMATE" WHICH HAS
APPEARED IN NUMEROUS MESSAGES FROM BRAZIL IN RECENT MONTHS.

THE DISTINCT COMPONENTS OF THIS "CLIMATE" INCLUDE:

A) LAW OF SIMILARS; B) INDUSTRIAL DEVELOPMENT COUNCIL (CDI)
APPROVAL FOR FUTURE PRODUCTION; C) IMPORT DEPOSIT PLAN;
D) RECENT PERCENTAGE POINT INCREASE ON BASIC DUTY RATES;
E) REDUCED GOVERNMENT PROCUREMENT; F) ECONOMIC SLOWDOWN.

FOREGOING FACTORS MAKE IT EXTREMELY DIFFICULT TO
FORECAST WITH EVEN MINIMAL ACCURACY THE REQUIREMENTS
FOR CERP REPORT "BEST PROSPECTS" UNDER PRESENT FORMAT.

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COUNTRY COMMERCIAL ACTION GROUP RECOMMENDS FORMAT

BE SHIFTED FROM CUSTOMS GROUPING OF PRODUCT CATEGORIES
AND SUB-CATEGORIES TO PROJECT-ORIENTED TARGETS.

END OF SUMMARY.

2. NUMEROUS MESSAGES HAVE GONE OUT FROM THE EMBASSY OVER THE
PAST FEW MONTHS REFERRING TO BRAZIL'S "CHANGING IMPORT CLIMATE".
THE SPECIFICS OF WHAT IS MEANT BY THIS PHRASE ARE BEST
DEMONSTRATED BY TAKING A WIDGET AND CITING THE VARIOUS FACTORS
DETERMINING ITS "IMPORTABILITY". WHAT WE ARE ATTEMPTING TO DO
HERE IS TO SUMMARIZE ON A PRACTICAL BASIS HOW AN IMPORTED WIDGET
IS AFFECTED AT THE PRESENT TIME BY GOB POLICIES ON DEVELOPMENT,
WHICH RELY HEAVILY ON IMPORT SUBSTITUTION BY GOB IMPORT RESTRI-
CTIVE MEASURES TAKEN FOR BALANCE-OF-PAYMENTS REASONS, AND
OTHER FACTORS.

3. IN ORDER TO ASSESS THE POTENTIAL MARKET FOR A WIDGET IN BRAZIL
TODAY, THE EXPORTER WOULD WANT TO KNOW THE FOLLOWING:

A) LAW OF SIMILARS - DOES THE WIDGET HAVE A "SIMILAR" PRODUCT
MANUFACTURED IN BRAZIL? IF SO, IT IS GENERALLY NOT ELIGIBLE
FOR GOVERNMENT PROCUREMENT, DUTY REDUCTIONS OR EXEMPTIONS,
FOREIGN FINANCING OR OTHER GOVERNMENT INCENTIVES; WIDGET WOULD
BE SUBJECT TO HIGHER DUTIES; IN VIEW OF BALANCE-OF-PAYMENTS
PROBLEMS, GREATER ELASTICITY IN THE DEFINITION OF "SIMILAR"
TO FAVOR DOMESTIC PRODUCTION CAN BE EXPECTED.

B) CDI APPLICATION - HAS AN APPLICATION BEEN APPROVED BY THE CDI
FOR FUTURE PRODUCTION OF A PRODUCT "SIMILAR" TO WIDGET? IF SO,
EVEN THOUGH PRODUCTION HAS NOT BEGUN FAVORABLE TREATMENT FOR
IMPORT OF WIDGET BY FUTURE LOCAL MANUFACTURER MAY BE GRANTED IN
ORDER TO DEVELOP HIS MARKET WHEN PRODUCTION COMMENCE.

C) IMPORT DEPOSIT PLAN - DOES WIDGET FALL INTO CATEGORY FOR WHICH
IMPORT DEPOSIT (100 PERCENT OF F.O.B. VALUE FOR SIX MONTHS
WITH NO INTEREST OR MONETARY CORRECTION) APPLIES?

D) RECENT PERCENTAGE POINT INCREASE ON BASIC DUTY RATES -
DOES WIDGET FALL INTO ONE OF 2,000 - ODD CATEGORIES ON WHICH DUTY
RATES HAVE BEEN INCREASED BY 30 OR 100 PERCENTAGE POINTS?
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E) GOVERNMENT PROCUREMENT - DOES WIDGET FALL INTO CATEGORY OF
LIKELY IMPORTATION BY PUBLIC SECTOR (WHICH ACCOUNTS FOR SOME 46
PERCENT OF IMPORTS) AND HENCE LIABLE TO 15 PERCENT REDUCTION
ORDERED BY PRESIDENT IN THIS AREA OF IMPORTS? IF SO, HOW WILL
WIDGET FARE WHEN PRIORITIES ARE REALLOCATED AMONG DEVELOPMENT
PROJECTS? FIFTEEN PERCENT CUT IS ACROSS-THE-BOARD (INCLUDING
PETROBRAS PETROLEUM IMPORTS) AND NOT ON PROJECT-BY-PROJECT BASIS.

SINCE VITAL AND COSTLY PETROLEUM IMPORTS ARE LUMPED IN WITH TOTAL GOVERNMENT PROCUREMENT, SOME PROJECTS WILL CERTAINLY BE SUBJECT TO MORE THAN 15 PERCENT REDUCTION.

F) ECONOMIC SLOWDOWN - BRAZIL'S REAL GNP IS EXPECTED TO INCREASE BY LESS THAN 6 PERCENT IN 1975 AS COMPARED TO NEARLY 10 PERCENT IN 1974. WHILE THESE FIGURES COMPARE FAVORABLY WITH DEVELOPMENTS IN OTHER COUNTRIES, OUR INTEREST HERE IS IN RELATING BRAZIL'S GROWTH RATE TO THAT PREVAILING IN PREVIOUS YEARS. THE OUTLOOK FOR 1976 DOES NOT INDICATE A RETURN TO THE GROWTH RATES OF THE "BRAZILIAN BOOM" OF PREVIOUS YEARS. HOW WILL OUR WIDGET BE AFFECTED BY THE LOWER GROWTH RATES?

4. AT THE MOMENT CONGEN RIO IS WRESTLING WITH THE CERP REPORT ENTITLED "BEST PROSPECTS". THE REPORT ASKS US TO IDENTIFY FROM AMONG TARGET INDUSTRY PRODUCT CATEGORIES SUCH AS COMPUTERS AND PERIPHERAL EQUIPMENT, METALWORKING AND FINISHING EQUIPMENT, ETC. THOSE CATEGORIES WITH STRONG EXPORT GROWTH POTENTIAL. USDOC WILL THEN DECIDE PROMOTIONAL EFFORTS BASED ON THESE RECOMMENDATIONS. ASIDE FROM THE SPECIAL CASE OF POLLUTION CONTROL INSTRUMENTATION AND EQUIPMENT (FOR WHICH WE CLEARLY SEE STRONG POTENTIAL), WE ARE FINDING IT EXTREMELY DIFFICULT UNDER THE EXISTING FORMAT TO UNTANGLE THE WEB OF THE "CHANGING IMPORT CLIMATE" DESCRIBED ABOVE AND SUBMIT PROFESSIONAL RECOMMENDATIONS. THE OPTION OF PROCEEDING WITH THE EXERCISE AND DOING THE BEST JOB WE CAN, QUITE FRANKLY, INVOLVES GUESSWORK OF SUCH DEPTH AS TO QUESTION THE VALIDITY OF WHAT IS TO BECOME COMMERCE'S PLANNING DOCUMENT FOR PROMOTIONAL EFFORTS IN THIS COUNTRY.

5. THE CCAG'S SUGGESTED SOLUTION TO THIS PROBLEM IS THAT THE EXPORT TARGETING EXERCISE FOR BRAZIL BE SHIFTED AWAY FROM THE PRESENT PRESPECTIVE FOCUSED ON PRODUCT CATEGORIES WITH SCHEDULE B NUMBERS AND TOWARD VISIBLE AND SPECIFIC TRADE OPPORTUNITIES.
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FOR EXAMPLE, WE DO NOT THINK IT USEFUL TO CITE RAILROAD EQUIPMENT AND PORT EQUIPMENT AS PRODUCT CATEGORIES. WE WISH TO DEFINE THE OPPORTUNITY SUCH AS THE RAILROAD OF STEEL OR THE RE-EQUIPMENT OF THE PORT OF SAO SEBASTIAO (OR OTHER SPECIFIC PROJECTS IN THESE SECTORS) AND THEN TARGET OPPORTUNITIES FOR U.S. BUSINESS ASSESSING FACTORS IN PARA 3 ABOVE. THE CCAG, THEREFORE, RECOMMENDS THAT IN LIEU OF THE PRESENT FORMAT FOR SUBMISSION OF "BEST PROSPECTS" WHICH CALLS FOR A LISTING OF TEN PRODUCT CATEGORIES THE EMBASSY BE AUTHORIZED TO SUBMIT TEN PROJECT-ORIENTED TARGET OPPORTUNITIES. THIS RECOMMENDATION FOR MORE SPECIFIC TARGETING SUPPORTS SIMILAR RECOMMENDATION CONCERNING TRADE MISSIONS FORWARDED IN SEPARATE MESSAGE.
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